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GRAIN FARMERS ARE HAPPY

by

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We produced big grain crops in 1972. Even though wet weather delayed harvest, a much stronger domestic demand and a much larger need in foreign markets pulled feed grain, soybeans and wheat prices to much higher levels than last year. Also they are much higher than anyone anticipated. Problems this season were monumental. The problems include transportation bottlenecks, rapidly changing prices, wet weather, quality problems, shortages of fuel for drying, and delivering grain to meet foreign commitments at lake, gulf and coastal ports. These and other troubles marred the harvest season but rising prices and the January freeze buoyed producers spirits and pocketbooks.

Feed Grains More Than Adequate

The total feed grain supply for domestic and export use is near 248 million tons or 10 million tons over the 1971-72 record supplies. A larger carryover at 48 million tons more than offset a little smaller feed grain crop.

The domestic demand for feed grains has increased. There are numerous reasons including more animal units--2 percent more than last year. Dairy cattle numbers are stable, hog numbers will be up, beef cattle numbers will be higher and poultry numbers may be about the same. A greater amount of corn will be fed. Contributing will be favorable livestock prices though increasing feed costs have dulled the lustre of livestock feeding. Higher wheat prices may discourage wheat feeding. Much higher protein costs in 1973 mean some shift away from proteins to more feed grains in rations. The net result may be 4 to 6 percent more grains used in the domestic market than were used in 1972-73.

Export prospects for feed grains in 1973 are buoyed by large sales to the U.S.S.R. and continued strong demand from Europe and Japan and lower exportable supplies in Argentina and other exporting countries. Russia has purchased 229 million bushels of feed grains and may be an increasingly important customer. They reportedly purchased 15 feed mills this past year. This indicates a significant change in resource allocation and priorities. Sales with Russia and possibly China, a smaller buyer of corn this year, may be erratic but it does represent a breakthrough in trade with Communist countries. We may be in a new era in foreign trade in which we exchange farm products for energy with new customers.

Total feed grain needs, domestic and export, should exceed 1972 output and reduce carryover by at least 4 million tons.

Corn

Corn production was estimated in mid-January at 5.5 billion bushels or slightly below last year's crop but above earlier estimates. The fears of corn crop loss from delayed harvest were solved by the January freeze. We had a corn carryover October 1, 1972 amounting to 1.1 billion bushels. Total corn supplies in 1972-73 at 6.6 billion bushels exceed the record high of 6.5 billion bushels of 1971-72.

Farmers harvested 57 million acres of corn for grain. This was 10 percent less than the 1971 acreage but U.S. yields were "way up." Corn yields in the U.S. this year average 95.5 bushels per acre or 7.4 bushels above last year.

Total corn usage this market year will exceed the output of 5.5 billion bushels. Exports will total a big 1.0 to 1.1 billion bushels or 20 percent above last year. Corn fed should increase 5 to 7 percent reaching 4.3 billion bushels due to increasing livestock numbers and substitution of corn for both soybean meal and wheat. Along with normal industrial use the result should be a reduction in corn carryover September 30, 1973, of 200 to 300 million bushels leaving about 700 to 800 million bushels of corn on October 1, 1973.

Corn prices moved upward from $1.20 per bushel in October to around $1.50 per bushel in Central Ohio in late December. The late December corn prices reflected the harvest pessimism and uncertainty of total supplies and optimistic export possibilities. With the January freeze and near completion of harvesting, Ohio corn prices in February settled in the $1.35 to $1.40 range. Prices may stabilize near the current level until spring and then decline reflecting 1973 crop acreage, weather and crop prospects. Prices this market year may be quite similar to the corn blight year.

The CCC policy to not reseal corn under loan increases corn supplies about 225 million bushels or 3.5 percent and places downward price pressures on corn through May.

Corn acreage will increase in 1973. January intentions were to plant 70.5 million acres or 7 percent more than in 1972. That would mean 60 to 61 million acres for grain harvest which excludes silage, etc. The acreage target for 1973 is to set aside 15 million acres from feed grains compared to the 37 million acres set aside in 1972 and 18 million in 1971. The intent is to encourage more corn but more importantly more soybean output. Attached page explains current program rules.

There is a high probability that producers may plant more corn than the January intentions. Farmers show a strong preference to produce corn. This increases the probabilities of over-planting corn (which can be done easily) and reducing corn prices to near support levels next market year. Corn acreage for grain harvest at 63 million acres (up 10%) and yields of 90 to 95 bushels per acre would mean a corn crop of 5.7 to 6.0 billion bushels. Output at the higher level could mean some weakness in corn prices. A poor planting and growing season and/or unexpectedly strong foreign demand are the main factors that would negate my assumptions.

Soybeans

An unprecedentedly strong domestic and foreign demand for soybeans coupled with a low level of carryover, harvest difficulties and shorter than expected crop has resulted in very volatile market prices for soybeans and soybean meal. The oil market was stable with Decatur prices running near 10 cents per pound until devaluation and shortage of other oils became known. Then a strong upward reaction occurred in February.

Total use of soybeans is expected to exceed output. Market prices are rationing soybeans for the remainder of the market year. The market year starting September 1, 1972 featured strong domestic and world demand for soybeans and meal. Over half of the U.S. soybean crop on a volume equivalent basis moves into foreign markets. The U.S.S.R. bought 40 million bushels of soybeans for delivery this market year. The U.S.S.R. will become a permanent customer for soybeans: They reportedly purchased four soybean crushing mills. Brazil is being encouraged to become a major soybean producer and competitor at current prices. Oil stocks around the world appeared to be in adequate supply until recently. Protein meals are in short supply.

Increased demand for soybeans and soybean meal in the world market is due to:

1. Continued expansion in livestock and poultry production in Europe, Japan and, more recently, the U.S.S.R. A significant point is that the U.S.S.R. decided not to liquidate their livestock even though they had massive grain crop failures.

2. A need in the major importing countries for some oil.

3. Failure of the Peruvians to catch anchovies for fish meal.

Our 1972 soybean output, even with a difficult harvest season was 1,276 million bushels. This is a new record, up 100 million bushels from last year but below November expectations by 70 million bushels. Another soybean crop survey report will be issued in March intentions to plant. With a September 1, 1972 carryover near 72 million bushels, total supplies for the market year were 1,348 million bushels.

Use in domestic and foreign markets will exceed this year's output. Domestic use may be 815 million bushels (about same as 1970-71 use) and exports may be near 475 million bushels (41 million above the previous record of 1970-71). Thus, total use would be near 1,290 million bushels leaving a carryover at the end of the market year August 31, 1973 at 58 million bushels. This means the pipelines will be essentially empty.

Soybean prices to Ohio farmers will average at a record high level for the market year. So far prices have ranged from $3.13 per bushel in October to $3.99 in January. February prices will be over $5.00 per bushel--an almost unbelievable level and certainly higher than anyone expected. The reduced crop report in January along with continued strong foreign demand and failure of the Peruvians to catch anchovies certainly has stimulated a "speculative binge."

Prices of soybeans and meal have been, to say the least, extremely volatile. Somebody wants beans and somebody else owns them--largely farmers.

Prices in early 1973 may fluctuate around the current and relatively high levels and then drift downward toward next year's harvest. Influencing prices in the interim will be the size of the soybean crop in Brazil, the availability of other protein sources (particularly if the Peruvians catch fish when they send their fleet out in March), intentions to plant, actual plantings, and kind of growing season and world demand. There is much interest in using protein substitutes. Removal of price controls may mean increased quantities of urea being used in cattle feeding but at higher prices. Another potential soybean meal substitute is high lysine corn. Hog farmers seem interested.

Will more soybeans be raised next year? Yes! Will we "over do" soybean acreage and drive prices below the $3.00 level in 1973-74? Not likely! We harvested 46 million acres of soybeans in 1972 with yields averaging a record 27.9 bushels per acre. Remember the output of 1,276 million bushels was 130 million bushels above last year. Still we do not have enough soybeans--we will draw down stocks by 15 million bushels.

Farmers said in the January intentions to plant report they would seed 49 million acres or 5 percent more soybeans. This is insufficient to meet the growing demand. We estimate that U.S. farmers could plant 53 million acres or 15 percent more soybeans and have very strong soybean prices (by previous standards) in 1973-74. If we plant 20 percent or 10 million more or 55.0 million acres a small build-up in stocks might occur. Even so, soybean prices would be very favorable. Attached is a soybean acreage, yield, output and use estimate and a couple other tables that may be helpful in analyzing the situation and arriving at a decision.

Will we plant 10 million more acres to soybeans? It is possible but probabilities are not high. The feed grain program released 22 million acres of which most will go to corn and soybeans. But substantial acreage will go to sorghum, barley, oats, spring wheat, other crops, and "slippage."

Farmers would rather grow corn. With a good planting season farmers will tend to plant more corn and thus seems more likely to "over do" corn acreage--not soybean acreage. The difficulties in soybean germination and doubled soybean seed prices may discourage some producers. Strong soybean prices along with changed land retirement rules will surely attract an increase in soybean acreage beyond the 5 percent indicated by farmers in January.

Whether soybeans can attract acreage away from corn will depend mainly on relative prices and yields for the two crops. Soybean yields have increased much more slowly than corn yields. This requires a higher soybean to corn price ratio over the years if soybeans are to compete with corn for land use.

Wheat Prospects

Wheat stocks on hand July 1, 1972 totaled 865 million bushels or 18.5 percent more than a year earlier. Sharply higher exports are more than offsetting a decrease in domestic consumption. With lower wheat production in 1972 there will be a substantial decline in wheat stocks. On July 1, 1973 the wheat carryover may be 440 million bushels compared to 863 million on July 1, 1972. Our potential heavy wheat carryover problem has been alleviated by the world wheat situation and larger exports.

Total U.S. wheat production in 1972 was 1,545 million bushels or 5 percent below 1971. This decline resulted from a 1 percent decrease in harvested acreage and yields 4 percent below last year. Soft red winter wheat production in the U.S. during 1972 increased 5 percent to 227 million bushels. In Ohio, production of soft red winter wheat was 46.2 million bushels or 8 percent above the 1971 level.

Domestic use of wheat is likely to be 820 million bushels this year. This is down from the 855 million bushels used last year in the domestic market. Wheat feeding will be below the high level of the 1971-72 season as much higher wheat pric.. make wheat feeding less attractive.

Domestic food use by humans is likely to remain near 525 million bushels. The decline in per capita consumption of wheat each year is offset by population increases. Seed use this market year will expand reflecting increased plantings in response to stronger wheat prices.

The expansion in wheat acreage will be west of the Mississippi because of unfavorable fall weather at seeding time east of the Mississippi. Winter wheat seedings were up 1 percent. Spring wheat planting intentions show a 17 percent increase or about 3 million acres, durum wheat intentions are up 250,000 acres or 9 percent.

The action today is in world markets. The world wheat harvest in 1972 was below last year's record output of 350 million tons. Reduced wheat crops occurred in the United States, U.S.S.R., Eastern Europe, India and Brazil. Unfavorable weather was the principle factor.

Total stocks at the beginning of the current marketing year in the four major exporting countries were about 6 percent below year ago levels. Strong export activity has reduced stocks in Canada and Australia while lagging output has been the main factor in reducing stocks in Argentina.

U.S. wheat stocks were relatively large.

World demand moved up sharply in the fall of 1972 following a sluggish world wheat market in 1971-72. Highlighting this advance were big increases in imports by the U.S.S.R., Mainland China and Eastern Europe and some other wheat deficit countries. The Soviet Union has agreed to purchase 5 million tons from Canada in 1972-73. Their purchases from the U.S. are estimated at 625 million bushels or 11 to 12 million tons. Mainland China has agreed to buy at least 4.5 million tons from Canada in the 1972-73 marketing period. They bought 5.0 million tons from the U.S. India needs ? . million bushels and Bangledash's wheat needs are great. Brazil may be an importer rather than an exporter.

Wheat prices to Ohio farmers averaged $1.85 for July-December period and reached their peak of around $2.50 per bushel in December and January. Wheat prices are expected to decline seasonally but remain above year earlier throughout the remainder of the 1972-73 marketing year. Farmers in late December or early January could have locked in favorable prices by contracting or hedging part of the 1972 wheat crop. We emphasize part of the crop.

The acreage of soft red wheat is down substantially which will result in tight supply-demand conditions in the next market year. Carryover next July 1 may be only 10 million bushels. However, prices of soft red wheat will not fully reflect the tight supply-demand situation because of substitution of one wheat for another.

February, 1973

LAND RETIREMENT PROGRAM

Corn

Option A - Set aside 25 percent of base for full compliance:

32¢ X ASCS yield X ½ farm's base acres = payment

Participant guaranteed a national average return equal to 70 percent of parity on Oct. 1, 1973

Option B - Set aside 0 percent of base and do not increase feed grain acreage above 1972:

15¢ X ASCS yield X ½ farm's base acres = payment

Both receive payment as soon as possible after July 1. But Option B is not eligible for minimum guarantee.

Wheat

Option A - Set aside 0 percent of allotment for full compliance:

A participant receives a preliminary payment equal to 75 percent of the estimated face value of his domestic wheat certificates as soon as possible after July. Any remainder will be paid after December 1.

Option B - Set aside acreage equal to 86 percent of the allotment, plus additional acreage up to 150 percent of the 1973 allotment. Earn payment of 88¢ per bushel X ASCS yield X additional acres set aside. Also, domestic wheat certificate payments as in Option A. Certain limitations, based on the farm's 1972 wheat plantings, make this option of limited interest to most Ohio growers.

Other Provisions

Haying and grazing will be permitted on set aside acreage, if the participant first notifies his county ASCS office. The payment rate will be reduced for this privilege.

Substitution provisions are unchanged from last year. Soybeans may be substituted for either feed grains or wheat, corn for wheat, and wheat for corn, etc.

Conserving base acres must be maintained.

Retention of base. At least 45 percent of the corn base and 90 percent of the wheat allotment must be planted to an acceptable crop to avoid a reduction in the base or allotment for the next year.

Price support loans on corn, grain sorghum, barley, or wheat requires enrollment in the program for the commodity. Rates are the same as for 1972 crops.

Sign up participants in the 1973 Feed Grain and Wheat programs sign up at county ASCS offices starting February 5 and ending March 16.

1973 POTENTIAL SOYBEAN ACRES AND USE

Year	Acres (Mil.)	Yield Bu./Ac.	Output (Mil. Bu.)	Supplies	Use (Mil. Bu.) Domestic	Use (Mil. Bu.) Export	Carryover
1972	45.7	27.9	1,276	1,348	815	475	58
1973	48.8 (5%)*	27.5	1,344	1,402	850	475	77
	50.3 (10%)	27.0	1,358	1,416	850	525	41
	52.7 (25%)	26.5	1,397	1,455	850	525	70
	54.8 (20%)	26.0	1,425	1,483	850	550	83

* January, 1973 Planting Intentions

THREE APPROXIMATIONS OF TOTAL CROP COSTS, 1971

Cost Group	Corn	Soybeans (Per Bushel)	Wheat
25% Lowest	$ .80	$2.00	$1.30
All Producers	1.10	2.50	1.80
25% Highest	1.40	3.00	2.20

SOYBEANS OR CORN IN 1973?

	Yield/Ac.	Est. 1973 Price	Total Cost Per Bu.	L. & M. Return Per Acre
Corn	70	$1.20	$1.40	-14.00
	110		.80	44.00
Soybeans	25	3.40	3.00	10.00
	40		2.00	56.00